

To the Village Council  
Village of Eau Claire  
Eau Claire, Michigan 49111

In planning and performing our audit of the financial statements of the Village of Eau Claire for the year ended February 29, 2004, we considered the Village's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

## **SEGREGATION OF DUTIES**

Control over cash receipts transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts, records cash receipts, prepares bank deposits, and makes bank deposits. A second individual does receive the bank statements and prepares the bank reconciliations, adding a level of control. Due to limited personnel, the Village does not feel further segregation would be warranted from a cost/benefit standpoint.

## **INTEREST ALLOCATION**

The Village currently has a pooled cash arrangement in which all Village cash is held in one bank account. Reconciliations track how much cash belongs to each separate fund. The pooled cash arrangement allows the Village to earn a higher rate of return. Currently, all interest income is recorded in the General Fund. However, a portion of this interest is really attributable to cash belonging to other funds, and should thus be allocated to the other funds. This allocation could be made via a spreadsheet calculating average cash balances and allocating monthly interest on that basis.

## **BID SOLICITATIONS**

During our testing of capital expenditures, we noted that bids had not been solicited for the purchase of a back-hoe in the amount of \$53,970. We suggest that the Village comply with its policy of soliciting bids for all significant purchases of fixed assets to ensure that a reasonable price is paid.

## **TAX FUND CHECKING ACCOUNT**

Checks written on the Tax Fund Checking Account currently require only one signature. We suggest that the Village require dual signatures on these checks to provide additional controls over cash, as is done with the General Fund Checking Account.

## **BUDGETING**

When comparing amounts budgeted and final actual expenditures we noted several large variances. Since the budget process includes a great deal of estimating, it is not unusual for significant variances to develop. We recommend the Village monitor expenditures in the various funds and appropriately amend these budgets to maintain compliance with State budget regulations.

To assist you in your future budgeting efforts, following is a reminder of the requirements the Village must comply with as part of the Uniform Budgeting Act (P.A. 621):

- Budgets must be adopted for the General Fund and all Special Revenue Funds.
- The budgets must be balanced including beginning fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoptions.
- Expenditures cannot exceed budget appropriations.
- Expenditures must be authorized by a budget before being incurred.

## **ELECTRONIC TRANSFERS**

There was a new bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of "automated clearing house (ACH) transaction." Beginning immediately, a local unit's governing body must adopt a policy on ACH arrangement that includes all of the following:

- Designation of an individual as the party responsibility for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows: describe goods or services purchased, the cost, date of payment, and the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

## STATE SHARED REVENUE AND BUDGETING

We recommend that the Village continue to evaluate the impact of the revenue sharing reductions on the new budget. In addition, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at 517.373.2697. We will continue to update the Village as developments occur.

## NEW REPORTING MODEL – GASB 34

Implementation of this new reporting model will begin shortly after completion of the February 29, 2004 audit. The Village's February 28, 2005 financial statements will be issued in compliance with GASB 34.

We appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

*Plante & Moran, PLLC*

May 27, 2004